

## Message Text

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ACTION EA-09

INFO OCT-01 IO-10 ISO-00 SP-02 AID-05 EB-07 NSC-05 CIEP-01

TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00 COME-00

FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03 LAB-04

SIL-01 AGR-05 FEA-01 PA-01 PRS-01 /095 W

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FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 111

INFO USDEL MTN GENEVA

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E.O. 11652: N/A

TAGS: ECON, NZ

SUBJECT: QUARTERLY PREDICTIONS OF THE NZ INSTITUTE OF ECONOMIC  
RESEARCH

REF: EMBASSY'S A-58, JUNE 5, 1975

1. THE EMBASSY HAS RECEIVED A COPY OF THE ADVANCE RELEASE OF  
THE SEPTEMBER 1975 QUARTERLY PREDICTIONS ON NATIONAL INCOME  
AND EXPENDITURE OF THE NZ INSTITUTE OF ECONOMIC RESEARCH.  
THE RELEASE, WHICH IS SUBJECT TO REVISION WHEN THE FULL TEXT  
OF THE QUARTERLY PREDICTIONS IS PUBLISHED, IS NOT FOR  
PUBLICATION OR TO BE PUBLICALLY QUOTED FROM.

2. HIGHLIGHTS OF THE SUMMARY OF THE RELEASE FOLLOW:

(A) THE NEW ZEALAND ECONOMY IS ADJUSTING DOWN TO THE  
EFFECTS OF THE MOST PROLONGED POST-WAR RECESSION  
AND A SPECTACULAR INTERNATIONAL INFLATION. TERMS  
OF TRADE INDEX HAD FALLEN FROM PEAK OF 128 IN  
JUNE 1973 TO 70 IN MARCH 1975, A FALL OF 43  
PER CENT IN IMPORT PURCHASING POWER.

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THIS IMPLIES NEARLY A 10 PER CENT FALL  
IN THE NZ VOLUME OF OUTLAYS WHICH COULD BE

SUSTAINED. BUT IN THE MARCH 1975 YEAR  
VOLUME OF OUTLAYS ROSE BY ABOUT 7 PER CENT  
AND PRODUCTION VOLUME ROSE ABOUT 4 1/2 PER  
CENT. THIS RESULTED IN A \$NZ1455 MILLION  
BALANCE OF PAYMENTS DEFICIT. BUT IN  
THE JUNE 1975 QUARTER EXPORTS ROSE AND  
IMPORTS FELL WHICH MORE THAN OFFSET INCREASE  
IN INVISIBLES DEFICIT, REDUCING JUNE YEAR  
DEFICIT TO \$NZ1430 MILLION.

(B) FOR THE YEAR AHEAD THE NEED TO VERY SUBSTANTIALLY  
REDUCE THIS DEFICIT WILL COMINATE ECONOMIC  
EVENTS. PRODUCTION IS LIKELY TO REMAIN STATIC,  
INVESTMENT WILL PROBABLY FALL, AND MONETARY AND  
INCOME POLICIES WILL REMAIN TIGHT. IF BAL/PAYS DOES  
INOT IMPROVE TIGHTER FISCAL MEASURES MAY BE JUDGED  
NECESSARY AS MIGHT DIRECT IMPORT CONTROLS.

(C) WAGE PAYMENTS WILL INCREASE 11 PER CENT, FARM  
INCOMES WILL INCREASE ABOUT 14 1/2 PER CENT AND  
COMPANY INCOMES WILL CONTINUE TO STAGNATE, UP ONLY 3

PER CENT. OUTPUT IS NOT EXPECTED TO INCREASE.  
A FORECAST OF A 9 1/2 PER CENT INCREASE IN GNP BY  
MARCH 1976 TO \$NZ10345 MILLION WILL BE REFLECTED  
FULLY IN PRICE RISES.

(D) IMPORT PRICES ARE LIKELY TO INCREASE BOUT  
30 PER CENT DURING THE CURRENT YEAR. THE  
RECENT 15 PER CENT NZ DEVALUATION WILL  
CONTRIBUTE TO THIS. THIS PLUS INCOME  
INFLATION MAY BOOST FINAL EXPENDITURE PRICES  
BY ABOUT 14 PER CENT. THE NZIER'S FORECAST OF  
A 2 PERCENT INCREASE IN THE VALUE OF  
DOMESTIC OUTLAY IMPLIES A FALL IN VALUME OF  
ABOUT 10 PER CENT (MOSTLY ACCOUNTED FOR BY A  
TRANSITION FROM A PERIOD OF STOCK BUILDING TO  
ONE OF STOCK RUNDOWN).

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(E) PRIVATE CONSUMPTION EXPENDITURE IS FORECAST TO  
RISE ABOUT 12 PE CENT IN VALUE, BUT TO FALL  
ABOUT 2 PE CENT IN VOLUME. THE FALL IN PER  
CAPITA CONSUMPTION WILL BE GREATER.

(F) THE FALL IN VALUE OF PRIVATE INVESTMENT  
EXPENDITURE (ABOUT 2 1/2 PER CENT) WOULD BE LESSENERD  
BY PRICE CHANGES AND THE MAJOR INVESTMENT IN  
THE MAUI GAS FIELD. PUBLIC FIXED CAPITAL  
FORMATION IS TO RISE ABOUT 26 PER CENT. THE

REDUCTION IN THE VOLUME OF PRIVATE EXPENDITURES WILL BE MOSTELY OFFSET BY RAPID INCREASES IN PUBLIC SPENDING (FORECAST TO RISE BY 18 1/2 PER CENT IN VALUE). THE NET EFFECT WILL LIKELY BE A MARKED REDUCTION IN DEMAND FOR IMPORTS, SUFFICIENT TO OUTWEIGHT THE EXPECTED LARGE PRICE INCREASES.

(G) GREATER EXPORT PRICES AND VOLUMES ARE EXPECTED TO LEAD TO A MARKED IMPROVEMENT IN EXPORT RECEIPTS AND THE BALANCE OF PAYMENTS (DROPPING TO A FORECAST \$NZ795 MILLION DEFICIT FOR THE MARCH 1976 YEAR). PROSPECTS ARE, HOWEVER, THAT THE BALANCE OF PAYMENTS DEFICIT WILL STILL BE AT AN UNSUSTAINABLE LEVEL AT THE END OF THE CURRENT FORECAST PERIOD.  
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## Message Attributes

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